SBA
U.S. Small Business Administration

MP-30

Child Day-Care Services

Management and Planning Series

Building America's Future

The Office of Business Development of the U.S. Small Business Administration would like to acknowledge the excellent work of the Kansas State University Small Business Institute, Frederick H. Rice, director, in preparing this report. Student team members Sonya Martin, team leader, Janelle M. Andra, Jeffrey D. Farrell and Sandra K. Marihugh conducted research for this report with technical guidance provided by Sheila Dannells, advisor, and production assistance by Barta Stevenson, technical assistant.

TABLE OF CONTENTS

Trends Affecting the Industry

Approximately one-half of the children in the United States today are cared for by someone other than an immediate family member during some portion of each day. In two-thirds of two-parent homes, both parents work, providing a large and ever growing consumer base for the day-care industry. In addition, 12 million children, more than 20% of the children in the United States, live with single parents who need child care in order to work (Caldwell, 1987).

Married women with children have been the fastest growing segment of the labor force since 1972. Estimates show that 67% of all new jobs from 1988 to 1995 will be held by women, 80% of whom will have children at some point during their career. A national survey conducted in 1982 indicates that 27% of mothers of pre-school children say they would seek a job if they could find adequate child care, and 21% of part-time working mothers claimed they would seek more hours of work if given better child care.

Employers and co-workers often feel the impact of inadequate or unreliable day care. Sometimes parents are preoccupied at work about their children's care. They may arrive late and leave early to meet their children's schedules. Absenteeism may occur or time may be lost in making phone calls to check on children. Both mothers and fathers have been known to reject promotions because of conflict with their parental obligations (Wojahn, 1988). Co-workers may be affected by lost productivity and may feel resentment if called upon to "pick up the slack."

Some employers are taking steps to reduce the struggle between career and parental obligations by offering flexible work schedules and parental leave, both for mothers and fathers. Employers are also helping employees find options for quality child care, by offering referral services to employees seeking day care. This usually provides a starting point for the parents by giving them a better idea of what is available and allows them to talk with other parents who have had some experience with a particular caregiver. Some employers are also providing financial assistance by arranging for parents to pay their child-care expenses with pre-tax dollars or offering child-care subsidies as part of their benefit package.

A less common practice that has gained support is on-site child care, a day-care facility sponsored by the company and located on its property. Since on-site care can be very expensive, employers normally do not underwrite the entire cost. Usually, parents have part of the expense deducted from their paychecks or elect a flexible benefit option. Depending on the amount of subsidy provided by the employer, rates for on-site care can be below that of other quality day-care centers. However, most companies that have some type of child-care facility or assistance program believe the benefits—public relations, increased employee dependability and improved recruiting and retention efforts—far outweigh the costs to them (Thompson, 1988). With the additional advantage of proximity, parents do not have to go out of their way to drop their children off before work and are able to visit them during breaks and the lunch hour. Because of the growing demand in the day-care industry, many opportunities exist for potential small business owners. Parents now place a high value on quality child care and are willing to search for the best care providers.

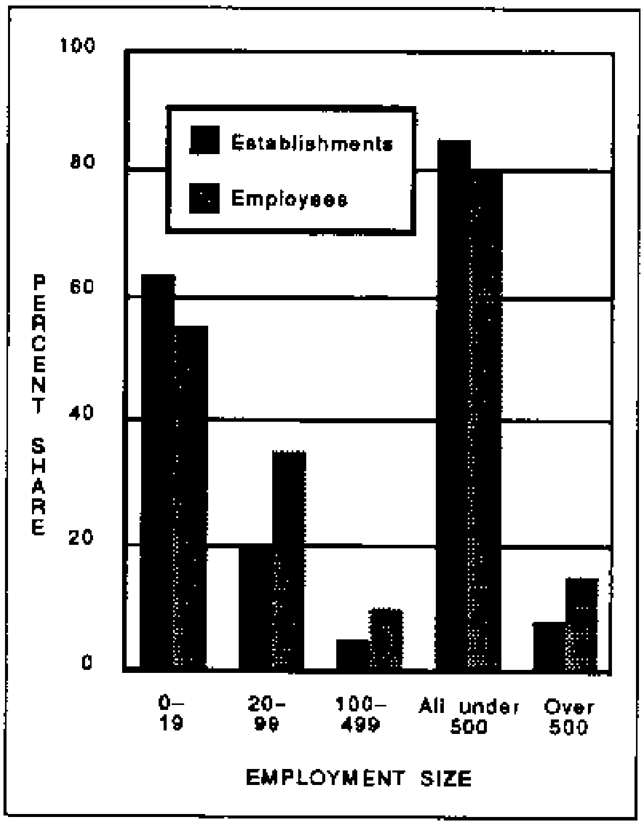
Current State of the Industry

Almost 4,800 small businesses with less than 20 employees each provided child day-care services in 1986. These small businesses account for approximately 70% of the businesses in the industry (see Chart 1). They were also the fastest growing segment of the industry from 1980 to 1986, adding more than 20,000 workers—a 106% increase.

For-profit businesses are only one of the several different types of day care that now exist with each type used by different groups within the day-care market. Many of the small child day-care businesses are home-based, or operated out of a privately owned home. By contrast, center-based operations tend to be larger in size and include franchise, on-site company sponsored, cooperative and individually owned centers. Currently, 15% of employed mothers use center-based day care for their preschool children as their primary source of child care. An additional 13% of working mothers use center-based care as their secondary source and use a baby-sitter or family member as their first choice. Surveys show that more affluent, better educated families rely more on paid care and center-based care than lower income families, who rely primarily on relatives.

The market demand for child care has also led to the development of chains of day-care facilities. *Changing Times* reported in 1984 that ". . . top chains enroll just 6% of all children under 6 years old who attend day-care centers and nursery schools. Not surprisingly, the chains' managements say they intend to expand as quickly as staff time, capital resources, and interest rates allow . . . Enrollments are soaring everywhere."

Chart 1 – Child Day-care Industry Divided by Size of Business (1986)



Source: U.S. Small Business Administration, Small Business Data Base (unpublished data from USELM file).

Some of the chain leaders of day-care operations are Kinder-Care, founded in 1969, with more than 850 locations in 40 states and Canada; LaPetite Academy, started in 1970, with 358 centers in 20 states; ARA Services, which bought National Child Care in 1980, with 142 schools in 11 states; and Gerber Products with 57 Gerber Children's Centers in six states. (*Changing Times*, 1984).

Government's Role in the Industry

Child-care needs have recently attracted national attention with the U.S. Congress debating whether to establish a national program and regulatory standards. However, individual states already regulate child-care providers. State laws are extremely diverse, ranging from strict licensing requirements to almost no regulation at all. Each state has its own laws regarding zoning ordinances and insurance requirements, as well as regulations for the actual facility, such as capacity limits, fire alarms, fenced play areas, number of exits and health standards for food preparation areas. In addition, there are usually regulations regarding the minimal number of staff required for specific levels of enrollment (see Appendices A and B for state regulatory agencies and licensing requirements).

Current federal proposals emphasize the cost and availability of child care, as well as setting national health and safety standards. One proposal, called the Child Care Services Improvement Act, would authorize tax credits of up to $1,000 to low-income parents, issue grants to public, private and family day-care centers and provide an insurance pool to help lower the cost of liability coverage. The plan also includes a revolving loan fund to improve child-care facilities.

Another proposal, called the Act for Better Child Care, would subsidize day care for low-income families. In addition, this bill would provide funds to improve the training of child-care workers and establish minimum federal standards for child-care providers (Thompson, 1988).

The federal government already provides some assistance to low-income families through Title XX of the Social Security Act, passed in 1974. Families with an income below 115% of their state's median income are eligible for benefits, and families with an income above 80% of their state's median income are required to pay some part of the expenses based on their income level (Shaw, 1986).

In 1981, the funds for Title XX were cut back at both the state and federal levels. Originally, the federal government contributed 75% of the funding and the states contributed 25%. The program was then cut back 21% at the federal level; the states were no longer required to contribute, resulting in many children being dropped from the program due to more limited eligibility requirements. Funding has since increased but still does not match the original, pre-1981 level (Shaw, 1986).

Head Start is another federally funded program aimed at low-income children. The purpose of this program is to prepare children from very low-income families for school by focusing on reading and positive social interaction. Some perceived that low-income families were unable to provide their children with the books, games and activities that middle-class children enjoyed. An unforeseen by-product of this program is free child care to parents who enroll their children. The federal government continues to fund Head Start and approximately 350,000 children are currently enrolled (Shaw, 1986).

In addition, a tax credit is available that reduces families' federal income taxes to help compensate for child-care expenses. In 1976, the tax credit was established at 20% of total child-care costs up to $400 for one child and $800 for two or more children. In 1981, the credit was changed to favor lower income families. The rate was increased to 30% for households earning less than $10,000 and declined gradually to 20% for families earning over $28,000. The maximum credit is $720 for one child and $1,440 for two or more children (U.S. Department of the Treasury, 1984). Unfortunately, few poverty-level households are actually able to benefit from the entire credit because they cannot receive an amount larger than their original tax liability. Therefore, the prime beneficiaries from the credit are middle- to upper-income families (Shaw, 1986).

Day-care providers need to stay informed of federal programs and proposals because of the direct consequences on new and existing day-care businesses. For example, new financing opportunities might be created or a major shift in public attitudes towards the provision of quality child care might occur.

The Legal Environment

Although starting a day-care business is relatively easy, the legal issues facing the potential day-care center operator or in-home provider are complex. Because of recent court cases, day-care providers must have substantial knowledge of the laws for operating a center or providing care in the home.

Child-care providers need to have a clear understanding of their relationship with the children and which decisions are theirs to make concerning the children in their care. An important step in precluding lawsuits filed by parents is to require them to sign a consent form that outlines the policies of the center and the procedures to be followed in special situations and emergencies. Also, the responsibilities and expectations of the day-care provider and the parents should be clearly understood. Signed consent forms will not always prevent lawsuits from being filed; however, the written document is important evidence of good faith on the caregiver's part.

The most common legal problems faced by child-care providers involve negligence by a staff member whose failure to act responsibly or follow specified procedures results in injury or civil rights violations. Civil rights cases are typically filed when a parent or the state feels there has been inappropriate behavior or abuse by staff members (Corder, 1984).

Proper insurance coverage is essential to cover the costs of lawsuits, liabilities and unexpected expenses. Even though precautions may be taken, accidents can happen. Therefore, the child-care provider should be covered with liability insurance in case of an accident resulting in injury. An insurance agent can advise what type of coverage is needed and prepare a plan specifically designed for the owner's particular needs. Coverage for a day-care operation should include the following:

- General liability, which protects against claims of injury or property damage involving clients.
- Fire, business interruption and crime insurance.
- Workers' compensation, unemployment insurance and optional employee benefits such as health and life insurance.

Some ways to obtain the coverage include adding a rider to a homeowner's policy, purchasing a separate policy to cover day-care related accidents or purchasing a separate family day-care group policy from agencies that serve the special needs of that profession, such as the National Association for Family Day Care's group policy.

Start-up Information

Training is available for starting and running a child-care facility through either specific classes or literature. The local child-care Resource and Referral Agency or local Family Day Care Association can be contacted for information. In some states, such as Massachusetts, New Jersey, Texas, New York and Georgia, assistance is provided through community agencies that recruit, license, train and monitor family day-care providers (see Appendix E for information resources). One source of particular interest is the National Association for Family Day Care (NAFDC), a nonprofit organization that provides literature, quarterly newsletters and group insurance to home day-care providers.

Business Plan

No matter how small a business is, one can benefit from writing a business plan. It helps organize thoughts and assures that all information needed to start a business is available. A plan should include goals and objectives and the step-by-step details of how to reach them (see Appendix C for business plan guidelines). In addition, a business plan should include financial requirements and projections. If financial assistance is needed, a business plan is an invaluable aid in convincing lenders of one's seriousness and dedication.

Cash Flow Analysis

All businesses require a cash investment to get started. Cash flow is often limited in the first few months, so it makes sense to keep expenses as minimal as possible; for example, by shopping around for the best price for rent, fixing up an office and buying a business telephone. Utilizing home furnishings for a while will enable more money to be used for essential business equipment. How much financing is needed? A business plan can provide a good idea of how much money will be required to start and sustain a business for the first few weeks or months. An income projection (see Appendix D for income projection statement) can help determine the following:

- Start-up costs.
- Estimated gross monthly sales.
- Type of service(s) to be provided.
- Monthly operating expenses.
- Expenses with industry averages.
- Monthly draw and how much additional cash will be needed.
- Whether the business can support its debt service.

Financial Sources

Once it is determined how much money is needed, sources for obtaining these funds may include the following:

- Personal savings.
- Cash value of life insurance.
- Value of stock or bonds.
- Cash value of other assets available or that may be used for collateral.
- Cash loans from relatives or friends.
- Investments from partners.
- Chattel mortgages on vehicle or equipment purchases.
- Advance payments from contracts or prepaid "memberships."
- Commercial bank loans (usually limited to a few thousand dollars on signature loans).
- Second mortgage on real estate or other assets (it is common to pledge two dollars in assets for every dollar you borrow).

Banks are not speculators or gamblers; consequently, most small businesses are financed through private sources. However, even if a bank offers financial assistance, it is not wise to commit to specific payments in the first few months. A flexible repayment schedule is important so that as much operating capital as possible can be retained in the business during the initial period.

Government loan guarantees through the Small Business Administration (SBA) or the Farmers Home Administration are available during the initial start-up and later expansion phase of a business. Specific eligibility criteria must be met to qualify for these programs.

Marketing

Once the training, business plan and financing are complete, the small business owner must attract potential customers through an effective marketing program. The more care and attention devoted to marketing, the more successful the business can be.

The minimal marketing program should include

Name—Be sure to have a memorable and distinctive name. If it is easy for prospects to remember the name, the marketing program will be more cost effective.

Logo—Choose a memorable style in which to print the name. If well done, the logo will tell the story efficiently. Have original art work photoreproduced so it can be used consistently.

Business cards—This is a simple way of creating a business-like image and probably the least expensive-per-impression advertising available. Hand business cards out to everyone. One never knows when a contact will turn into a business referral.

Flyers—Visit a local quick-print shop to learn how to use clip art and dry-transfer lettering to create flyers. Post them on bulletin boards and hand them out to prospective (expecting) parents.

Signs—A plastic magnetic sign on the door of a car or van will attract a lot of attention at a low cost.

T-shirts—These are a popular and low-cost method of spreading the word. They are also a natural for field trips to keep track of groups by color coding the children.

Classified ads—Learn how to write short attention grabbers. Get results cheaply. Action words attract attention.

Brochure—As the business grows, the owner may wish to invest in a brochure to enhance the business' image while telling the story in a professional manner.

MODELS OF DAY-CARE OPERATIONS

Child day-care activities often are classified according to where the services are provided, as home-based or center-based. Home-based operations are small businesses run out of a person's home. Center-based operations may be small or large businesses or nonprofits.

While each form of day care has its own unique considerations, several issues are universally applicable such as licensing, financing, health and safety, record-keeping, insurance and marketing. The ways in which these and other activities affect the prospective business person are discussed as each form or "model" of child care is examined in greater detail.

The Home-based Business

Offering home day care is a good, low-cost method of starting a business that is especially attractive to people who have children themselves and want to stay at home to raise them.

For a home-based operation, the prospective small business owner needs to consider whether his or her house is suitable for child care by consulting the state regulations. Some common requirements include smoke alarms, railed stairways and an outdoor play area protected from nearby traffic or other hazards.

From a state regulatory standpoint, there are two basic kinds of home-based care that can be provided—registered and licensed. Some states further subdivide these categories depending on the number of ages of children being cared for. Registered care may entail as little work as a basic background check by the police department unless someone lodges a complaint against the business owner. Licensing entails more stringent requirements, such as annual checks by the health and/or fire departments, periodic "drop-in" inspections, etc. In some states it is possible to operate home-based child care without any regulatory status; however, the move is toward some type of control. Being registered or licensed is often a consideration of parents when looking for care and can also be a valuable advertising tool. Many states and cities maintain lists of licensed and registered providers that are shared upon request with parents and employers looking for quality child care. Being listed may provide the day-care business with exposure, advertising and an implied endorsement. Since the regulations vary greatly from state to state, obtaining a copy of the state regulations is a necessary first step.

Another issue to consider is financing. While caring for children at home is not usually capital intensive, there will be costs associated with running a business—such as costs to equip the home with the appropriate toys and other equipment. All new or expensive equipment is not necessary; however, safety and liability should be kept in mind. Toys should be selected that are too large to swallow, made with nontoxic materials, nonelectric, etc. Most day-care owners find they are better off investing in a few well-made items rather than many cheap ones. Many items needed can be found at garage sales or thrift shops. Some states maintain resource banks for day-care providers that make toys and other equipment available on a loan or exchange basis.

State agencies can also provide information on programs and support networks to assist the business owner with the day-to-day operation of the business. Although it is entirely possible to run a successful business without information on current events, staying abreast of pertinent legal issues, industry trends and new ideas will help the small business owner to provide better care and to increase the chances of being profitable. At the national level, the National Association for Family Day Care provides family day-care support (see Appendix E).

For example, the Child Care Food Program (CCFP), administered in most states by the State Department of Education, helps child-care centers and family and group day-care homes serve nutritious, well-balanced meals. Each month providers complete the appropriate forms and are then reimbursed for the meals they serve. The amount paid depends upon the number of meals served per month multiplied by the reimbursement rate. The maximum reimbursement is two meals and one snack per child per day. The current rates per child are \$.3725 for snacks, \$.6675 for breakfast, and \$1.2525 for lunch or dinner.

Well-defined policies, contracts and procedures are essential to running a day-care business. Having the parent sign a contract at the initial interview will legalize the business agreement and help to avoid conflict in the future. Obtaining all the necessary emergency information and the first payment at this time is advisable. Receiving each period's payment up front is considered normal practice, and for good reason. Prepayment ensures that the money needed will be available to provide food and other items for the children. It also avoids the unfortunate, but not infrequent, problem of caring for children, then finding that the parents cannot or will not pay.

A good record-keeping system is important to track payments received and for tax purposes. A detailed list of all revenues and expenses must be kept for the business. Accurate records also are needed for parents who want to figure their tax credits. A separate weekly income record or attendance form can be used to record income. In either case, the total number of hours of care for each child and the amount received should be included as well as the reimbursements received from the CCFP. Reimbursements are considered income and must be included on a tax return.

Certain expenses can be deducted from business income on a tax return. Such expenses are classified as direct and indirect. Direct expenses benefit the children only. The full amount paid may be deducted from these items. Some examples are food, toys, bookkeeping costs, depreciation and tax credit allowances for major purchases. Indirect expenses benefit both the business and personal parts of the home. Only the business portion of these expenses can be deducted. Some examples are utility costs, real estate taxes, homeowner's insurance and home repairs and maintenance. All receipts should be kept to substantiate expense deductions on an income tax return. More detailed information on record keeping for tax purposes can be obtained from an accountant or found in publications such as *Tax Guide for Small Businesses* (PUB 334) and *Business Use of Your Home* (PUB 587) available from the Internal Revenue Service (IRS).

Development of business procedures should include setting up a daily schedule outlining what the children will do during the day. Parents generally feel more comfortable knowing what their children will be doing, and children adapt more readily when there is a sense of order to their day.

The final step is to develop a marketing plan for the business and selecting ways to advertise, for example, listing the business at the local governmental agency, placing an advertisement in local papers, passing out flyers, putting notices on public bulletin boards, telling friends, contacting schools and churches, etc. Any place frequented by families of working parents is a good place to advertise.

Advantages of home day care are that the owner can sometimes provide the service at a lower cost to parents than center-based care, while providing a closer, family-type setting for the children. Both of these features should play heavily in advertising as cost and a home-like environment are of utmost concern to parents who must leave their children on a daily basis. Disadvantages to the business owner include long hours—10- to 12-hour days are not uncommon. Working alone and being the sole operator of the business can also be a problem if the owner becomes ill or needs a day off. Therefore, planning ahead for backup support is necessary.

The following case histories illustrate the differences between a registered and a licensed home care provider.

Registered Home Care Model

Vicky is a registered home day-care provider in Kansas. In her state, this means that she can care for no more than six children, including her own, under 16 years of age. No more than three may be under 18 months of age. Being registered indicates that the provider has assured the state department of health that all requirements are being met. In this less formal type of regulatory environment, parents play an integral role in ensuring the quality of care that their children receive. While the specific requirements differentiating licenses and registered care vary from state to state, in general, registered care entails fewer regulatory constraints but allows the owner to care for fewer children. Specific requirements pertinent to each state can be obtained from each state's health department.

Vicky went through a three-step process to become registered. First, she obtained and completed an application packet from the health department. Second, she filled out a Kansas Bureau of Investigation form that authorized the state to do a background investigation for arrests or convictions, especially as they pertain to abuse issues. And finally, she paid an application fee of $5 and must pay an annual renewal fee of $5.

To help reduce her operating costs, Vicky participates in the Child Care Food Program, which reimburses day-care providers for some food costs. To be reimbursed she completes two forms each month: an attendance sheet verifying the number of children served meals and a menu chart for each meal served, which must meet state guidelines. She is reimbursed the following month at the current standard rate, which currently covers all her food costs. Vicky's marketing strategy to advertise by word of mouth has kept her home day-care business at maximum capacity since 1982. Vicky also sets her fees competitively for her location and estimates her annual gross income is $9,000 with a net income of about $8,000 after expenses. However, with her various entitlement and tax write-offs, her taxable income is only about $1,000.

Licensed Home Care Model

Jennie is a licensed provider who started baby-sitting "informally" and became aware of the many programs and tax deductions available as she became more established in her work. As a licensed provider, Jennie may care for up to ten children under the age of 14. No more than six may be younger than kindergarten age and no more than three may be under 18 months of age. Licensing requires that her home be inspected annually for health, safety and program offerings.

The rates she charges are competitive for her community. She participates in her local Family Home Association Food Program to subsidize her food costs, following the same procedures as those in the registered care example. The insurance needed to cover her family home day-care business is provided by a rider on her homeowner's policy. Jennie works from 7:30 A.M. to 5:30 P.M., Monday through Friday. For tax purposes, she nets approximately $1,000; however, she realizes significantly more for the reasons cited in the previous example.

Since Jennie became licensed, she has fenced in her yard, bought a swing set and an eight-passenger van, and has transformed a room of her house into a playroom for the children. Also, she deducts one-third of the utilities from her taxes based on the square footage of her house devoted to the business. Jennie shops for toys and equipment at garage sales and discount department stores. In order to adhere to the state requirements, her home is inspected annually, the first time by the fire department and thereafter by the health department. Jennie's marketing strategy is simple. "I don't advertise," she says. "I believe that word of mouth from satisfied parents gets better results." Her perception as to why parents choose home care is that it is less expensive than center-based care, the children contract fewer illnesses at her home and that shy children can easily get "lost in the crowd" at a day-care center. She feels that providing a warm home environment for the children to enjoy while their parents are at work is beneficial and appealing to families.

The Center-based Business

While the need for day care continues to grow, individuals interested in providing this service may find it is not a profitable activity. Day care on a scale that requires more than one employee can be expensive to provide due to the caregiver-to-child ratios that are strictly enforced by state regulators. The potential day-care owner should, therefore, fully analyze revenues and expenses early in the start-up process to determine if some form of sponsorship is necessary to cover costs. An alternative is center-based care that may be provided through a variety of organizational structures including corporate- or employer-sponsored centers, franchised business centers, cooperative centers and nonprofit agency centers.

A typical example illustrates the current income and expense structure of a day-care center in a mid-size midwest community. The facility accommodates 10 toddlers, 24 children ages 3 to school age and 28 kindergartners, attending on a half-day basis with one-fourth of the children eligible for Social Rehabilitative Services (SRS) reimbursement for meals.

After total expenses are deducted from total income, this hypothetical center earns approximately an $8,600 annual profit, part of which must be used to pay for capital expenditures or debt retirement (see Table 1).

When initial decisions on the facility location and layout are made, the cost is only one factor that should be considered. Others are zoning, health and safety, convenience and availability of existing facilities. In the ideal case, when a wide range of locations are available, the most important considerations should be the

Table 1 – Income Statement For A Hypothetical Day-care Center

Income	Annual amount
10 toddlers @ $13/day × 260 days	$ 33,800
24 3-yr to school-age children @ $11.50	71,760
28 kindergartners @ $10.50	76,440
SRS food reimbursement	7,346
Total income	**$189,346**

Expenses	Annual amount
Rent (3600 sq. ft. @ $4.00)	$ 14,400
Utilities	9,600
Custodian	2,400
Custodial supplies	600
Play and art supplies	1,300
Kitchen help	2,400
Kitchen supplies	250
Lunch expense	20,150
Snacks	9,235
Building maintenance	1,500
Equipment repair	300
Office supplies	300
In-service training	200
Insurance	800
Lead teacher salary 3 FTE,* 40 hrs/wk, @ $5/hr	31,200
Asst. teacher salary 4 FTE,* 50 hrs/wk, @ $4.30	44,720
Payroll taxes and insurance est. of 15%	11,388
Owner's salary	30,000
Total expenses	**$180,743**

Source: KSU-SBI, 1988.

**Full-time equivalent*

After personnel and food, the center's largest expense item is rent and related facilities costs.

convenience to parents, the quality of the neighborhood and zoning restrictions. Ideally, a center should be located on the approach to the business district of the city, on the right-hand side of the street and with a covered carport to make drop-off and pick-up of children as convenient as possible. Using a building vacated by a business has many advantages, such as zoning restrictions are usually not a problem; the basic structure is in place; and parking is generally available. While an existing building may be otherwise suitable, health and safety must also be considered. If, for example, the facility is located in a run-down section of town or is located near hazardous industrial sites, parents may hesitate to enroll their children, fearing for their children's well-being.

The Corporate Center Model

Corporate-sponsored centers have grown phenomenally as companies realize that they need to address family issues affecting their employees. Most of the companies that already offer child care are fairly large corporations but opportunities do exist for small business entrepreneurs. Other large corporations may be interested in providing day-care services if properly approached by an entrepreneur who could take on the responsibility of setting up and running the center in exchange for the financial backing and/or other support necessary to get the venture off the ground. The small business owner would then have the financial resources needed to get started while the company would have the benefit of on-site care for its employees.

Corporate-sponsored day care may be either on or off the job site. On-site day care is the most desirable to employees because of the convenience. Having the center located in the same building or complex allows the working parents peace of mind and the freedom to visit their children during breaks. The advantages, such as reduced absenteeism and turnover, increased productivity, and improved morale and employee-employer relations, increase the cost-effectiveness for the corporate sponsor.

An example of an employer-sponsored day-care center is the Employee Center for Young Children (ECYC), Inc., a nonprofit corporation established in 1980 and funded by Merck and Co., a New Jersey-based pharmaceutical firm. Recognizing the need for this type of service for its employees, Merck obtained a $100,000 grant, leased a building and hired a director. Operating revenues came from fund-raisers and tuition paid by parents. Merck subsidizes phone, mail and duplicating services and provides an annual grant for staff development. Current management of the center is by a board of eleven trustees, six elected by the members, parents and interested persons, and five elected by the board of trustees themselves.

Several variations of this corporate-sponsored model exist, such as the consortium model in which two or more persons or businesses work together to run the center. In addition, industrial parks often have center-based care available with several corporations providing the financial backing for the operation. Sometimes these centers are labeled "cooperatives" as parents are active participants in governing the center's activities in exchange for providing their time to build and repair recreational equipment, paint, create bulletin boards and offer many other services that significantly reduce operational expenses.

The Franchise Model

Franchise day-care centers are another area of opportunity for the small business entrepreneur. Under a franchise, a company that develops a prototype sells to an individual the legal rights to open and operate centers based on the prototype. The individual pays a franchise fee to get started and then pays a percentage of gross income for the ongoing use of the franchise (see Table 2).

The franchisor trains the franchisee, sets policy and conducts audits of the operations of each franchise. The franchisor provides prototype building and program

Table 2 – Characteristics of Selected Franchises

Name of franchise	Fee	Total capital needed	Advertising fee	Royalty	# of franchises 1984	1985	1986	1987	Company owned
Tegeler Time Day Care Inc. 10 Forbes Road Braintree, MA 02184	$25K	$50K	–	–	NA	NA	60	NA	NA
Lollipop Daycare, Ltd. 10255 E. Via Linda #2039 Scottsdale, AZ 85258	$35K	$70–110K	–	–	NA	NA	7	NA	NA
Primary Prep, Inc. 5690 Roosevelt Blvd. Clearwater, FL 33520	$15K	$60K	–	–	NA	NA	10	NA	NA
Youthland Academy 3174 Mack Road Fairfield, OH 45014	$20K	$50K	5%	$250/mo	1	1	1	1	1
Alphabetland Six Passaic Street Hackensack, NY 07601	$20K	$20K	–	10%	13	14	15	NA	1
Mary Moppets 2404 W. Huntington Dr. Tempe, AZ 85282	$75K	$40–50K	–	6%	67	54	NA	NA	41
Child Enrichment Six Passaic Street Hackensack, NY 07601	N/A	$20K	–	–	NA	NA	15	NA	NA

Source: *Annual Franchising 500 Report*. Entrepreneur, *1988; Show Schedule*. Franchise Handbook, *1986–87; and* Business Opportunities Handbook, *1988*.

plans, logos, brochures and advertisements and, in some cases, will help select the location, build the building, buy the equipment and otherwise do much of the set-up work. The franchisor also continually monitors the franchised centers to ensure compliance with company standards of quality and management.

From the viewpoint of the prospective entrepreneur, there are both advantages and disadvantages to a franchise. Standardization, name recognition and reputation are advantages because they help to market the center. Standardization of the educational and/or the day-care program itself appeals to many parents because they know that their child will be enrolled in a program that has been designed to meet children's needs. Name recognition of the franchisor and its reputation can also influence a parent's decision. For example, a parent who is looking for day care for the first time may favor a center that is familiar and that has a reputation of providing good quality care.

Disadvantages for the franchisee are "hidden costs" such as royalties paid to the franchisor, advertising assessments, requirements to buy materials, equipment or supplies from the franchisor and legal fees. These requirements are part of the contract agreement between the franchisor and the franchisee who operates the day-care center. In general, this agreement includes the following:

- *General provisions*—These would include a description of the parties involved (franchisee and franchisor), the nature of the business of the franchise, the territories contained in the franchise, a protection from competition clause and clauses stating the promises of both parties.
- *Start-up provisions*—These must cover the deposit fee and how it will be paid, who will provide the equipment and facilities, the required training of the applicant, a transmission of standards and details for the opening of the business.
- *Operating provisions*—Included here might be information about obtaining assistance in purchasing, guidance in bookkeeping, management and promotion procedures, standard fee and tuition levels, expected performance by franchisee, details of reports and royalties, procedure of payment of insurance and taxes and confidentiality of disclosures.
- *Termination provisions*—These would state the terms of renewal, the transfer of rights, terminations for cause, terminations without cause, obligations on termination, resolution of disputes, relationship of parties and other miscellaneous provisions (Vaughn, 1974).

The Cooperative Model

Cooperative day-care facilities are typically started by a group of parents who have a need or desire to have a direct influence on the kind of care their children receive. Since a cooperative belongs to the people who use it, the owners are also the customers of this type of business so that making a profit is not a goal.

In a day-care cooperative, the parents share in management decisions and responsibilities. They volunteer their time, work closely with the staff and set the policies of the center. The parents also work closely with the director who could be a cooperative member or hired from outside the membership. A parent with minimal financial resources interested in getting into the child-care business on a larger scale than home-based care might find a cooperative appealing. The opportunity for direct parental involvement in their children's care can help make the center a success if properly channeled. Satisfied parents are likely to be the best form of advertisement, fueling continued growth by bringing in new members.

However, some possible disadvantages of the cooperative modes are the following:

- Good-intentioned parents may not have the business experience to make the difficult decisions of running an organization.
- The manager may receive confused messages from a board with mixed agendas.
- The nonprofit mentality does not allow for the accumulation of a sufficient cash cushion to weather financial difficulties and may lead to loose fiscal controls in the areas of tuition collection, expense control and supervision of personnel.

An example of a parent-sponsored co-op is the Childcare Cooperative at Kansas State University (KSU). It began operation in August 1985 in response to the increasing need for child care for the university's staff and students. To be enrolled, a child must have one family member affiliated with the university. The center was started as a nonprofit entity, receiving administrative assistance from the KSU Division of Continuing Education. To help fund the center, a loan was obtained from the university and money was allocated by the Student Governing Association (SGA) from available student fee funds.

A cooperative organizational structure was chosen by the parents who believed that the co-op structure would provide a superior educational program for their children. Parents were required to pay membership dues and to volunteer time for the center's operation. A board of directors was formed by the parents. The board has been very involved in fund-raising, building equipment and maintenance of the facilities.

The licensing requirements set by the state of Kansas and followed by the center allow the facility to hold a maximum of 223 children; currently, there are 177 children enrolled. The facility also is inspected on an annual basis by the state. The daily rate for each child is competitive for the area and includes transportation to and from area schools.

In January 1987, financial and management problems led to a reorganization from a parent co-op to an agency center affiliated with the university's Department of Housing. This department is now responsible for the center's finances while the child-care center itself is responsible for the curriculum.

The day-to-day operations of the agency-sponsored center remain the same as they were under the cooperative structure. The center, as a nonprofit organization, is eligible for both federal and state tax exemptions, and recently became eligible for property tax exemption. The insurance purchased by the center includes general liability and workmen's compensation and fire insurance on the building's contents. The buses available for transportation are state vehicles and are covered by the university's insurance. Accident insurance is covered by the children's parents. The center's projected budget for the year 1989 shows income comes from four main sources: tuition, Student Governing Association (SGA) Childships, Social and Rehabilitative Services (SRS), and the USDA (see Table 3). The $32,000 SGA Childship contributes an allocation from the Student Senate to help needy families afford the day-care center. The allocation allows the center to be an SRS recipient and also helps those who do not qualify for SRS funding. The $29,000 from the USDA is a federal government subsidy for the center's food costs.

Table 3 – Child-care Cooperative
Projected Income and Expenses, 1989

Income		
Regular tuition	$284,436	73%
SGA Childship	32,000	8%
SRA	32,000	8%
USDA	29,000	7%
Other	11,850	3%
Total	**$389,286**	**100%**
Expenses		
Salaries and wages	$280,000	72%
Rent	24,000	6%
Food service	48,000	12%
Other	36,700	10%
Total	**$388,700**	**100%**

Source: Kansas State University

The Agency-sponsored Model

Located in both rural and urban areas, agency day-care operations serve families of all income levels and are financially supported by the sponsoring agency. Included are nonprofit early childhood education programs sponsored by community agencies, such as church groups, labor unions, community centers and neighborhood organizations. Agency-sponsored day care may be full day-care centers or half-day enrichment programs that serve children from infancy through school age. Some are center-based while others include a network of day-care homes. Most agencies set up a board of directors to assist in the development of a business plan, as well as to retain the right to accept or reject the plan. Additional support is obtained from tuition and/or government funds. The break-even point based on the expected number of children and costs determines the amount of tuition charged, which should be enough to cover costs and yet be competitive with rates charged by comparable facilities in the area.

While licensing requirements vary by state, liability insurance covering both teachers and assistants is mandatory in many states, as is an annual safety inspection of the center. Setting up an agency-sponsored day-care center is similar to other models in that each state and local government has certain regulations that must be followed, such as the number of children allowed, the square footage required per child and the zoning regulations.

Normally a church, school or civic organization "sponsors" the center with funding from grants, donations, in-kind contributions and matching funds. Obtaining a suitable facility at low or no cost is often easier in this situation. Several alternatives are to rent a vacant home with a large lot for playground space (be sure to check out the city zoning regulations) or to use a church, school or civic club facility. Usually the cost of remodeling is much less expensive than constructing a new building.

A parochial school-sponsored day-care center in a mid-size town is one example of an agency-sponsored center. The start-up cost was financed by a $15,000 grant from the parish, which also allows rent-free use of the building in which the day care is conducted. The center also received loans from the diocese and the Catholic school system in the amount of approximately $29,000. These funds were used to renovate the building, obtain equipment and pay salaries and other expenses. Salaries are the principal operating expense of the center (see Table 4). Donations provided many of the smaller cost items including toys and equipment.

The center hires personnel by advertising positions in newspapers and through placement centers. All applicants are screened to ensure that they are qualified and that they meet the job description. The turnover rate is very high—most teachers stay one to two years due to low wages, moving and other circumstances—making it hard to find qualified workers. Wages range from $3.80 an hour for assistants to $4.65 an hour for lead teachers.

This day-care center currently has 85 children. The teacher-to-student ratios are dictated by state law, which varies by state. Most of those who attend the center are from families with children attending the Catholic school system; however, other children are accepted.

Table 4 – Distribution of Operating Expenses for an Agency-sponsored Model

Salaries	66%
Food and utilities	32%
Bookkeeping costs	(less than) 1%
Insurance:	
Property	(less than) 1%
Workman's	(less than) 1%
Compensation	
Liability and accidental	(less than) 1%

Source: Kansas State University—Small Business Institute Files.

The agency affiliation—whether it is a church, school or civic association—is a factor considered by parents when choosing day care. Parents also consider the location of the center, the convenience of the center (operating hours, part-time care and availability of transportation services), the quality of the teachers and educational program, the safety of their children, the facility itself (the size and the amount of equipment) and, of course, the fees.

CONCLUSION

With the increasing demand for child day-care services, many small business owners now have opportunities to provide quality services that weren't available in the past. Many programs are now being established by private organizations to assist the small business owner in providing quality care. Federal and state agencies are providing guidance through regulations and offering help through aid programs. Prospective business owners need only find the type of day care for which they qualify; and then, by staying informed of developments in the industry and implementing good business practices, a successful business can be achieved.

REFERENCES

"A Boom Ahead for Kid-Care Companies?" *Changing Times*, August 1984, pp. 37–38.

"Babysitting-Good for Business," *Management World*, 1986, pp. 11–13.

Business Opportunities Handbook, Enterprise Magazines, Inc., 1988, pp. 44–45.

Caldwell, Betty M., "Professional Child Care: A Supplement to Parental Care," *Group Care for Young Children*. Lexington Books, 1987, pp. 1–10.

Child Care Cooperatives, National Cooperative Business Institute, Washington, D.C., 1987.

"Childcare Co-ops Are Family Affairs," *Everybody's Money*, 1985, pp. 21–22.

Child Care Licensing Laws. Kansas Department of Health and Environment, Amended July 1985.

"Child Care: What Parents Want," *American Demographics*, 1988, pp. 46–47.

Corder, B.F., "Legal Issues Affecting Residential Child Care Workers," *Child Welfare*, 1984, pp. 217–224.

"Corporate Child Care: Making an Impact on Productivity," *Chain Store Age Executive*, 1985, p. 13.

Durant, Louis Jr., and Kathleen Pullan Watkins, *Day Care: A Source Book*. New York: Garland Publishing, Inc., 1987, pp. 121–129.

Facts About the Child Care Food Program in Family Day Care. The Children's Foundation, Washington, D.C., 1988.

Family Day Care, Kansas State University Cooperative Extension Service, Manhattan, Kansas, September 1986.

Graser, Rick, "Employer-Sponsored Child Care on the Rise," *Current Issues in Day Care: Readings and Resources*, 1986, pp. 47–50.

How to Start Your Own Day Care Center. Premier Publishers, Inc., 1986.

Hoyt, Mary Finch, "Good News for Working Moms," *Good Housekeeping*, January 1988, pp. 64–66.

"HRM Update," *Personnel Administrator*, 1986, p. 22.

Jaisinghani, Vijay T., Ph.D., and Vivian Gunn Morris, Ph.D., *Child Care In a Family Setting: A Comprehensive Guide to Family Day Care*. Family Care Associates, 1986.

Kansas Regulations for Licensing Preschools and Child Care Centers. Kansas Department of Health and Environment, Revised May 1, 1987.

"Kid's Stuff," *Inc.*, 1987, pp. 127–130.

Laws, Regulations, and Procedures for Registration of Family Day Care Homes. Kansas Department of Health and Environment, Revised July 1987.

"Mission Possible: Meeting Family Demands," *Personnel Administrator*, 1987, pp. 70–79.

Nelson, Margaret K., "Providing Family Day Care: An Analysis of Home-Based Work," *Social Problems*, 1988, pp. 78–91.

The NEW National Perspective. Washington, D.C., National Association for Family Day Care, 1987.

"Priority Day Care," *Small Business Day Care*, Bank of America, 1983.

"Quality Child Care Makes Good Business Sense." U.S. Small Business Administration, Washington, D.C., 1989.

Regulations for Licensing Day Care Homes and Group Day Care Homes for Children. Kansas Department of Health and Environment, Amended May 1, 1987.

Rice, Frederick H., *Marketing Basics for Small Business*. Kansas State University Small Business Development Center, 1986.

Rice, Frederick H. *Starting a Home-Based Business*. The Kansas Rural Enterprise Institute, Kansas State University, 1990.

Shaw, Lois B., "Childcare Policy in the United States of America," *Childcare and Equal Opportunities*. London: HMSO, 1986, pp. 54–61.

"Starting Your Own Family Day Care Business." National Association for Family Care, Washington, D.C., 1988.

Stautberg, Susan, "Can Business Afford to Neglect Family Issues?" *CPA: The Journal*, 1988, pp. 6–8.

Tax and Record Keeping Information for FDC. National Association for Family Day Care, Washington, D.C., 1988.

Thompson, Roger, "Caring for the Children," *Nation's Business*, May 1988, pp. 18–25.

U.S. Department of Treasury, Internal Revenue Service. 1984 Federal Income Tax Forms, 1984.

Vaughn, Charles L., *Franchising*. D.C. Health and Co., 1974, pp. 27–41, 36–147.

Wojahn, Ellen, "Bringing Up Baby," *Inc.*, November 1988, pp. 64–75.

"Working Solutions for Working Parents," *Management World*, 1986, pp. 8–10.

APPENDIX A: ADDRESSES OF STATE REGULATORY AGENCIES

ALABAMA
June S. Perry
State Department of Human Resources
503 Administrative Bldg.
Montgomery, AL 36130-1801

ALASKA
Patricia O'Brian
Dept. of Health and Social Services
Division of Family and Youth Services
Box H-05
Juneau, AK 99811

ARIZONA
Admin. For Children, Youth & Families
Department of Economic Security
Bldg. I
3727 E. McDowell Rd.
Phoenix, AZ 85008

ARKANSAS
Virginia Reed
Department of Human Services
Division of Children and Family Services
PO Box 1437 Slot 720
Little Rock, AR 72203

CALIFORNIA
Joyce Eng
Department of Social Services
Community Care Licensing Division
744 P St. M.S. 19-50
Sacramento, CA 95814

COLORADO
Division of Family and Children Services
Department of Social Services
State Social Services Bldg.
1575 Sherman St.
Denver, CO 80203

CONNECTICUT
Judith Walker
State Department of Human Resources
1049 Asylum Ave.
Hartford, CT 06105

DELAWARE
Pauline D. Koch
Licensing Services
Dept. of Svcs. for Children, Youth & Fam.
330 E. 30th St.
Wilmington, DE 19802

DISTRICT OF COLUMBIA
Licensing Office
Department of Human Services
Randall School Bldg.
1st and I Sts., SW
Washington, DC 20024

FLORIDA
Pamela Hutchinson
Dept. of Health and Rehab. Services
Children, Youth & Family Svcs. Program
1317 Winewood Blvd.
Tallahassee, FL 32301

GEORGIA
Div. of Family and Children Services
Department of Human Resources
315 Health Bldg.
47 Trinity Ave., SW
Atlanta, GA 30334-1202

IDAHO
Perry Ackerman
Department of Health and Welfare
Towers Bldg.
450 W. State St.
Boise, ID 83720

ILLINOIS
Patricia E. Bennett
Dept. of Children and Family Services
406 E. Monroe St.
Springfield, IL 62706

INDIANA
Keith Carver
State Department of Public Welfare
Child Welfare/Social Svcs. Div.
141 S. Meridian St., 6th Fl.
Indianapolis, IN 46225

IOWA
Harold K. Poore
Department of Human Services
Hoover State Office Bldg.
1300 E. Walnut St.
Des Moines, IA 50319

KANSAS
Children in Need of Care/Youth Svcs.
Dept. of Social and Rehab Services
Smith-Wilson Bldg., State Hosp.
2700 W. 6th St.
Topeka, KS 66606

KENTUCKY
Children's Services Branch
Dept. for Social Services
Cabinet for Human Resources
Human Rsrcs. Bldg., 6th Fl. W
275 E. Main St.
Frankfort, KY 40621

LOUISIANA
Div. of Children, Youth & Fam. Svcs.
Dept. of Health and Human Resources
1755 Florida Blvd. P.O.Box 4437
Baton Rouge, LA 70804

MAINE
Division of Child and Family Services
Department of Human Services
Human Services Bldg.
State House, Station 11
Augusta, ME 04333

MARYLAND
Office for Children and Youth
Executive Department
1502 State Office Bldg.
301 W. Preston St.
Baltimore, MD 21201

MASSACHUSETTS
Marilyn Gallivan
Office for Children
10 West St.
Boston, MA 02111

MICHIGAN
Ted DeWolf
Department of Social Services
Commerce Center
300 S. Capitol Ave.
Lansing, MI 48909

MINNESOTA
Carla Brown
Department of Human Services
Human Services Building
444 Lafayette Rd.
St. Paul, MN 55155-3802

MISSISSIPPI
Jane B. Emling
State Department of Health
P.O.Box 1700
Jackson, MS 39215-1700

MISSOURI
Jerry Simon
Missouri Division of Family Services
Broadway State Office Bldg.
P.O.Box 88
Jefferson City, MO 65103

MONTANA
Charlie McCarthy
Department of Family Services
Box 8005
Helena, MT 59604

NEBRASKA
Deb Dawson
Department of Social Services
Box 95026
Lincoln, NE 68509

NEVADA
Patricia J. Hedgecoth
Bureau of Services for Child Care
505 E. King, Room 606
Carson City, NV 89710

NEW HAMPSHIRE
Robert Letellier
Department of Human Services
6 Hazen Dr.
Concord, NH 03301

NEW JERSEY
J. Patrick Byrne
Division of Youth and Family Services
Bureau of Licensing
1 S. Montgomery St. CN717
Trenton, NJ 08625

NEW MEXICO
Social Services Division
Human Services Department
518 PERA Bldg.
P.O.Box 2348
Santa Fe, NM 87503-2348

NEW YORK
State Operations
Department of Social Services
Ten Eyck Bldg., 9th Fl.
40 N. Pearl St.
Albany, NY 12243

NORTH CAROLINA
Dr. Nancy H. Brown
Child Day Care Section
1701 Barbour Dr.
Raleigh, NC 27603-2008

NORTH DAKOTA
Children and Family Services Division
Department of Human Services
State Capitol
Bismarck, ND 58505

OHIO
M. Pauline Hosenfield
Department of Human Services
Bureau of Child Care Services
30 E. Broad St.
Columbus, OH 43221

OKLAHOMA
Prins Ella Anderson
Department of Human Services
P.O. Box 25352
Oklahoma City, OK 73124

OREGON
Karen Moffot
Children's Services Division
198 Commercial St., SE
Salem, OR 99210

PENNSYLVANIA
Susan Miller
Office of Children, Youth, & Families
Department of Public Welfare
Health & Welfare Bldg., 1st Fl. Annex
Harrisburg, PA 17102

RHODE ISLAND
JoAnne K. Flodin
Dept. for Children & Their Families
610 Mount Pleasant Ave.
Providence, RI 02908

SOUTH CAROLINA
Office of Children's Services
Department of Social Services
North Tower Complex
1535 Confederate Ave., P.O. Box 120
Columbia, SC 29202-9988

SOUTH DAKOTA
Clarice Turner
Child Protective Services
700 Governor's Dr.
Pierre, SD 57501

TENNESSEE
Children's Services Division
Office of the Governor
1600 James K. Polk St. Bldg.
505 Deaderick St.
Nashville, TN 37219

TEXAS
Office of Programs
Department of Human Resources
John H. Winters Human Svc. Ctr.
701 W. 51st St.
Austin, TX 78751

UTAH
Lois M. Rudd
Department of Social Services
Office of Licensing
120 N. 200 W.
Salt Lake City, UT 84103

VERMONT
Coleman Baker
Children's Day Care Unit
Dept. of Social & Rehabilitative Svcs.
103 S. Main St.
Waterbury, VT 05676

VIRGINIA
Meredyth Partridge
Department of Social Services
Division of Licensing
8007 Discovery Dr.
Richmond, VA 23229

WASHINGTON
Div. of Children and Family Services
Dept. of Social & Health Services
500-B Modular Bldg. Airdus.Pk.
7580 Armstrong St.
Olympia, WA 98501

WEST VIRGINIA
Families and Children Unit
Department of Human Services
B-850 State Office Bldg. 6
1900 Washington St. E.
Charleston, WV 25305

WISCONSIN
Dave Edie
Dept. of Health & Social Services
Bureau for Children, Youth & Families
P.O. Box 7851 St.
Madison, WI 53707

WYOMING
Ken Kaz
Dept. of Public Assistance & Soc. Svcs.
383 Hathaway Bldg.
2300 Capitol Ave.
Cheyenne, WY 82002

APPENDIX B: SUMMARY OF CHILD-CARE LICENSING REQUIREMENTS

State	(1) Regulation L	(1) Regulation R	(1) Regulation C	(1) Regulation O	(2) Regulated Center	(2) Regulated Homes	(2) Regulated Total	(3) Children enrolled Centers	(3) Children enrolled Homes	(3) Children enrolled Total	(4) LFDCH reg'n	(5) Liab. Insur.	(6) Training	(7) Exam or TB test	(8) Criminal check
AK	X				191	383	574						X	X	
AL	X				1,000	2,700	3,700	48,000	8,000	56,000		X	X		
AR	X				1,351	558	1,909	46,000	6,000	52,000	X		X	X	
AZ	X		X								X			X	X
CA	X				8,623	38,902	47,525	421,116	249,959	671,075	X	X		X	X
CO	X				750	6,000	6,750	55,590	30,109	85,699	X		X	X	X
CT	X				1,350	4,200	5,550	65,000	25,000	90,000	X	X	X		
DC	X												N/A	X	N/A
DE	X				184	1,102	1,286	11,217	5,458	16,675	X	X	X	X	X
FL	X				4,377	2,726	7,103	337,894			•		X		X
GA	X	X									X		X		X
HI		X									X			X	X
IA		X			1,174	1,928	3,102	52,545	16,980	69,525	X		X	X	X
ID			X		128	359	487				X				X
IL	X				2,254	5,416	7,670	115,000	38,000	153,000	X			X	X
IN	X				586	1,441	2,027	42,734	10,679	53,413					X
KS	X	X									X		X	X	X
KY	X										X	X	X	X	X
LA				X									X		
MA		X			2,564	9,200	11,764	115,000	43,500	158,500				X	X
MD	X	X									X			X	X
ME	X	X											X	X	X
MI	X	X			3,050	10,500	13,550	12,000	60,000	180,000	X			X	X
MN	X				1,200	10,000	11,200	35,000	65,000	100,000	X		X	X	X
MO	X				930	1,593	2,523	54,978	15,199	70,177				X	
MS	X										X				
MT		X			154	769	923	5,855		5,855	X	X			
NC	X	X			2,872	4,627	7,499	117,433	13,446	130,879	X		X	X	X
ND	X										X	X			X
NE				X	333	2,145	2,478	23,688	16,104	39,792	X			X	X
NH	X				600	389	989	21,700	3,300	25,000	X		X	X	X
NJ				X	1,913	855	2,768	107,901	7,125	115,026			X	X	
NM	X										X		X	X	X
NV	X				271	315	586	16,775	2,112	18,887	X	X	X	X	X
NY	X										X		X	X	
OH	X		X		2,475	4	2,479	120,000	12,000	132,000	X		X		
OK	X				1,233	1,806	3,039	62,131	9,030	71,161		X		X	
OR		X	X		560	3,200	3,760	27,000	N/A	27,000	X				X
PA	X	X			2,168	4,384	6,552	118,000	N/A	118,000	X			X	X
RI				X	170	500	670	10,000	3,000	13,000			X	X	X
SC	X										X			X	X
SD		X			81	432	513	4,784	3,467	8,251	X			X	X
TN	X										X	X	X	X	
TX	X	X									X				X
UT	X				245	1,842	2,087				X		X	X	X
VA				X	971	2,386	3,357	78,436	N/A	78,436			X	X	X
VT	X	X			250	1,100	1,350	12,000	10,000	22,000	X	X	X		X
WA				X							X	X			X
WI	X		X		1,350	3,351	4,701	70,000	14,000	84,000		X	X	X	X
WV				X									X	X	X
WY	X				202	631	833				X		X		

(1) These states license, register or certify family day-care providers (O=other).
(2) This is the number of regulated day-care centers and day-care homes in each state.
(3) This is the number of children enrolled in day-care centers (including preschools) and in home-based care.
(4) These states have established provisions for Large Family Day Care Homes (LFDCH).
(5) These states require some providers to have liability insurance.
(6) These states require some type of provider training.
(7) These states require a physical examination and/or a TB test for providers.
(8) These states conduct some sort of criminal check on potential providers.

Some of these responses are from a survey conducted by the Kansas State University Small Business Development Center, Fall 1988. The rest are from the "1988 Family Day Care Licensing Study" by the Children's Foundation, November 1988.

APPENDIX C: HOW TO WRITE A BUSINESS PLAN©

The following pages provide a suggested outline of the material that should be included in your business plan. Your final plan may vary according to your needs or because of the individual requirements of your lender.

What Are the Benefits?

Every business can benefit from the preparation of a carefully written plan. There are two main purposes for writing that plan:

1. To serve as a guide during the lifetime of the business. It is the blueprint of your business and will provide you with the tools for analysis and change.

2. A business plan is a requirement if you are planning to seek a loan. It will provide potential lenders with detailed information on all aspects of your company's past and current operations and provide future projections.

Business Plan Outline

I. **Cover sheet**
Serves as the title page of your business plan. It should contain the following:

- Name of the company
- Company address
- Company phone number (include area code)
- Logo (if you have one)
- Names, titles, addresses, phone numbers (include area code) of owners
- Month and year your plan was issued
- Name of preparer

II. **Statement of purpose**
(Same as executive summary.) This is the thesis statement and includes business plan objectives. Use the key words (who, what, where, when, why, how, and how much) to briefly tell about the following:

- What your company is (also who, what, where and when).
- What your objectives are.
- If you need a loan, why you need it.
- How much you need.
- Why you will be successful.
- How and when you plan to repay your loan.

III. **Table of contents**
A page listing the major topics and references.

IV. **The business**
Covers the details of your business. Include information about your industry in general, and your business in particular. Address the following:

- *Legal structure*—Tell what legal structure you have chosen and state reasons for your choice.
- *Description of the business*—Detail your business. Tell about your history, present status and future projections. Outline your product or service in terms of marketability. Project a sense of what you expect to accomplish in the next few years.
- *Products or services*—Give a detailed description of your products from raw materials to finished items. Tell about your manufacturing process. If you provide a service, tell what it is, how it is provided and why it is unique. List future products or services you plan to provide.
- *Location*—Describe site and why it was chosen. (If location is important to your marketing plan, focus on this in the marketing section below.)
- *Management*—Describe who is behind the business. For each owner, tell about responsibilities and abilities. Support with resumes.
- *Personnel*—Who will be doing the work, why are they qualified, what is their wage, what are their responsibilities?
- *Methods of record keeping*—What accounting system will you use? Who will do your record keeping? Do you have a plan to help you use your records in analyzing your business?
- *Insurance*—What kinds of insurance will you need? What will these cost and who will you use for a carrier?
- *Security*—Address security in terms of inventory control and theft of information.

V. **Marketing**
Covers the details of your marketing plan. Include information about the total market with emphasis on your target market. Identify

your customers and tell about the means to make your product or service available to them.

- *Target market*—Identify characteristics of your customers. Tell how you arrived at your results. Back up information with demographics, questionnaires and surveys. Project size of your market.
- *Competition*—Evaluate indirect and direct competition. Show how you can compete. Evaluate competition in terms of location, market and business history.
- *Methods of distribution*—Tell about the manner in which products and services will be made available to the customer. Back up decisions with statistical reports, rate sheets, etc.
- *Advertising*—How will your advertising be tailored to your target market? Include rate sheets, promotional material and time lines for your advertising campaign.
- *Pricing*—Pricing will be determined as a result of market research and costing your product or service. Tell how you arrived at your pricing structure and back it up with materials from your research.
- *Product design*—Answer key questions regarding product design and packaging. Include graphics and proprietary rights information.
- *Timing of market entry*—Tell when you plan to enter the market and how you arrived at your decision.
- *Location*—If your choice of location is related to target market, cover it in this section of your business plan. (See location in the business section of this outline.)
- *Industry trends*—Give current trends, project how the market may change and what you plan to do to keep up.

VI. Financial documents

These are the records used to show past, current and projected finances. The following are the major documents you will want to include in your business plan. The work is easier if these are done in the order presented.

- *Summary of financial needs*—This is an outline indicating why you are applying for a loan and how much you need.
- *Sources and uses of funds statement*—It will be necessary for you to tell how you intend to disperse the loan funds. Back up your statement with supporting data.
- *Cash flow statement (budget)*—This document projects what your business plan means in terms of dollars. It shows cash inflow and outflow over a period of time and is used for internal planning. Cash flow statements show both how much and when cash must flow in and out of your business.
- *Three-year income projection*—A pro forma income statement showing your projections for your company for the next three years. Use the pro forma cash flow statement for the first year's figures and project the next according to economic and industry trends.
- *Break-even analysis*—The break-even point is when a company's expenses exactly match the sales or service volume. It can be expressed in total dollars or revenue exactly offset by total expenses or total units of production (cost of which exactly equals the income derived by their sales). This analysis can be done either mathematically or graphically.

NOTE: The following are actual performance statements reflecting the activity of your business in the past. If you are a new business owner, your financial section will end here and you will add a personal financial history. If you are an established business, you will include the actual performance statements that follow.

- *Balance sheet*—Shows the condition of the business as of a fixed date. It is a picture of your firm's financial condition at a particular moment and will show you whether your financial position is strong or weak. It is usually done at the close of an accounting period, and contains assets, liabilities and net worth.
- *Income (profit and loss) statement*—Shows your business financial activity over a period of time (monthly, annually). It is a moving picture showing what has happened in your business and is an excellent tool for assessing your business. Your ledger is closed and balanced and the revenue and expense totals transferred to this statement.

- *Business financial history*—This is a summary of financial information about your company from its start to the present. The business financial history and loan application are usually the same. If you have completed the rest of the financial section, you should be able to transfer all the needed information to this document.

VII. Supporting documents

These are the records that back up the statements and decisions made in the three main parts of your business plan. Those most commonly included are as follows:

- *Personal resumes*—Should be limited to one page and include work history, educational background, professional affiliations and honors and special skills.
- *Personal financial statement*—A statement of personal assets and liabilities. For a new business owner, this will be part of your financial section.
- *Credit reports*—Business and personal from suppliers or wholesalers, credit bureaus and banks.
- *Copies of leases*—All agreements currently in force between your company and a leasing agency.
- *Letters of reference*—Letters recommending you as being a reputable and reliable businessperson worthy of being considered a good risk. (Include both business and personal references.)
- *Contracts*—Include all business contracts, both completed and currently in force.
- *Legal documents*—All legal papers pertaining to your legal structure, proprietary rights, insurance, titles, etc.
- *Miscellaneous documents*—All other documents that have been referred to, but are not included in the main body of the plan (e.g., location plans, demographics, advertising plan, etc.).

Putting Your Plan Together

When you are finished: Your business plan should look professional, but the lender needs to know that it was done by you. A business plan will be the best indicator he or she has to judge your potential for success. It should be no more than 30 to 40 pages long. Include only the supporting documents that will be of immediate interest to your potential lender. Keep the others in your own copy where they will be available on short notice. Have copies of your plan bound at your local print shop, or with a blue, black or brown cover purchased from the stationery store. Make copies for yourself and each lender you wish to approach. Do not give out too many copies at once, and keep track of each copy. If your loan is refused, be sure to retrieve your business plan. For a more detailed explanation of each section of the business plan outline, see SBA's publication, *How to Write a Business Plan*, which includes step-by-step directions and sample sections of actual business plans. Also available from the SBA is a VHS videotape and workbook, "The Business Plan: Your Roadmap for Success."

APPENDIX D: MONTHLY CASH FLOW PROJECTION

Name of business	Address	Owner	Type of business	Prepared by	Date

	Pre-start-up position		1		2		3		4		5		6		Total Columns 1–6		
Year Month	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual	
1. Cash on hand (beginning of month)																	1.
2. Cash receipts																	2.
(a) Cash sales																	(a)
(b) Collections from credit accounts																	(b)
(c) Loan or other cash injection (specify)																	(c)
3. Total cash receipts (2a + 2b + 2c = 3)																	3.
4. Total cash available (before cash out) (1 + 3)																	4.
5. Cash paid out																	5.
(a) Purchases (merchandise)																	(a)
(b) Gross wages (excludes withdrawals)																	(b)
(c) Payroll expenses (taxes, etc.)																	(c)
(d) Outside services																	(d)
(e) Supplies (office and operating)																	(e)
(f) Repairs and maintenance																	(f)
(g) Advertising																	(g)
(h) Car, delivery and travel																	(h)
(i) Accounting and legal																	(i)
(j) Rent																	(j)
(k) Telephone																	(k)
(l) Utilities																	(l)
(m) Insurance																	(m)
(n) Taxes (real estate, etc.)																	(n)
(o) Interest																	(o)
(p) Other expenses (specify each)																	(p)
(q) Miscellaneous (unspecified)																	(q)
(r) Subtotal																	(r)
(s) Loan principal payment																	(s)
(t) Capital purchases (specify)																	(t)
(u) Other start-up costs																	(u)
(v) Reserve and/or escrow (specify)																	(v)
(w) Owner's withdrawal																	(w)
6. Total cash paid out (5a through 5w)																	6.
7. Cash position (end of month) (4 minus 6)																	7.
Essential operating data (non-cash flow information) A. Sales volume (dollars)																	A.
B. Accounts receivable (end of month)																	B.
C. Bad debt (end of month)																	C.
D. Inventory on hand (end of month)																	D.
E. Accounts payable (end of month)																	E.

INSTRUCTIONS FOR MONTHLY CASH FLOW PROJECTION

1. Cash on hand (beginning of month)	Cash on hand same as (7), Cash position, previous month
2. Cash receipts (a) Cash sales	All cash sales. Omit credit sales unless cash is actually received.
(b) Collections from credit accounts	Amount to be expected from all credit accounts.
(c) Loan or other cash injection	Indicate here all cash injections not shown in 2(a) or 2(b) above.
3. Total cash receipts (2a + 2b + 2c = 3)	
4. Total cash available (before cash out) (1 + 3)	
5. Cash paid out (a) Purchases (merchandise)	Merchandise for resale or for use in product (paid for in current month)
(b) Gross wages (excludes withdrawals)	Base pay plus overtime (if any)
(c) Payroll expenses (taxes, etc.)	Include paid vacations, paid sick leave, health insurance, unemployment insurance, etc. (this might be 10 to 45% of 5(b))
(d) Outside services	This could include outside labor and/or material for specialized or overflow work, including subcontracting
(e) Supplies (office and operating)	Items purchased for use in the business (not for resale)
(f) Repairs and maintenance	Include periodic large expenditures such as painting or decorating
(g) Advertising	This amount should be adequate to maintain sales volume
(h) Car, delivery and travel	If personal car is used, charge in this column, include parking
(i) Accounting and legal	Outside services, including, for example, bookkeeping
(j) Rent	Real estate only (See 5(p) for other rentals)
(k) Telephone	
(l) Utilities	Water, heat, light and/or power
(m) Insurance	Coverages on business property and products (fire, liability); also worker's compensation, fidelity, etc. Exclude executive life (include in 5(w))
(n) Taxes (real estate, etc.)	Plus inventory tax, sales tax, excise tax, if applicable
(o) Interest	Remember to add interest on loan as it is injected (See 2(c) above)
(p) Other expenses (specify each)	Unexpected expenditures may be included here as a safety factor
	Equipment expensed during the month should be included here (non-capital equipment)
	When equipment is rented or leased, record payments here
(q) Miscellaneous (unspecified)	Small expenditures for which separate accounts would not be practical
(r) Subtotal	This subtotal indicates cash out for operating costs
(s) Loan principal payment	Include payment on all loans, including vehicle and equipment purchases on time payment
(t) Capital purchases (specify)	Nonexpensed (depreciable) expenditures such as equipment, building, vehicle purchases and leasehold improvements
(u) Other start-up costs	Expenses incurred prior to first month projection and paid for after start-up
(v) Reserve and/or escrow (specify)	Example: insurance, tax or equipment escrow to reduce impact of large periodic payments
(w) Owner's withdrawal	Should include payment for such things as owner's income tax, social security, health insurance, executive life insurance premiums, etc.
6. Total cash paid out (5a through 5w)	
7. Cash position (end of month) (4 minus 6)	Enter this amount in (1) Cash on hand following month.
Essential operating data (non-cash flow information)	This is basic information necessary for proper planning and for proper cash flow projection. In conjunction with this data, the cash flow can be evolved and shown in the above form.
A. Sales volume (dollars)	This is a very important figure and should be estimated carefully, taking into account size of facility and employee output as well as realistic anticipated sales (actual sales, not orders received).
B. Accounts receivable (end of month)	Previous unpaid credit sales plus current month's credit sales, less amounts received current month (deduct "C" below)
C. Bad debt (end of month)	Bad debts should be subtracted from (B) in the month anticipated
D. Inventory on hand (end of month)	Last month's inventory plus merchandise received and/or manufactured current month minus amount sold current month
E. Accounts payable (end of month)	Previous month's payable plus current month's payable minus amount paid during month
F. Depreciation	Established by your accountant, or value of all your equipment divided by useful life (in months) as allowed by Internal Revenue Service

U.S. Small Business Administration (SBA)

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

This information is listed in *The Small Business Directory*. For a free copy contact your nearest SBA Office.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

- **Service Corps of Retired Executives (SCORE)**, a national organization sponsored by SBA of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people.
- **Small Business Development Centers (SBDCs)**, sponsored by the SBA in partnership with state and local governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.
- **Small Business Institutes (SBIs)**, organized through SBA on more than 500 college campuses nationwide. The institutes provide counseling by students and faculty to small business clients.

For more information about SBA business development programs and services call the SBA Small Business Answer Desk at **1-800-U-ASK-SBA (827-5722)**.

Other U.S. Government Resources

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the "bookstore" heading. You can request a *Subject Bibliography* by writing to **Government Printing Office**, Superintendent of Documents, Washington, DC 20402-9328.

Many federal agencies offer publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory or write to the addresses below:

Consumer Information Center (CIC)
P.O. Box 100
Pueblo, CO 81002
The CIC offers a consumer information catalog of federal publications.

Consumer Product Safety Commission (CPSC)
Publications Request
Washington, DC 20207
The CPSC offers guidelines for product safety requirements.

U.S. Department of Agriculture (USDA)
12th Street and Independence Avenue, SW
Washington, DC 20250
The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

U.S. Department of Commerce (DOC)
Office of Business Liaison
14th Street and Constitution Avenue, NW
Room 5898C
Washington, DC 20230
DOC's Business Assistance Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal agencies.

U.S. Department of Health and Human Services (HHS)
Public Health Service
Alcohol, Drug Abuse and Mental Health Administration
5600 Fishers Lane
Rockville, MD 20857
Drug Free Workplace Helpline: **1-800-843-4971**. Provides information on Employee Assistance Programs.
National Institute for Drug Abuse Hotline: **1-800-662-4357**. Provides information on preventing substance abuse in the workplace.
The National Clearinghouse for Alcohol and Drug Information: **1-800-729-6686** toll-free. Provides pamphlets and resource materials on substance abuse.

U.S. Department of Labor (DOL)
Employment Standards Administration
200 Constitution Avenue, NW
Washington, DC 20210
The DOL offers publications on compliance with labor laws.

U.S. Department of Treasury
Internal Revenue Service (IRS)
P.O. Box 25866
Richmond, VA 23260
1-800-424-3676
The IRS offers information on tax requirements for small businesses.

U.S. Environmental Protection Agency (EPA)
Small Business Ombudsman
401 M Street, SW (A-149C)
Washington, DC 20460
1-800-368-5888 except DC and VA
703-557-1938 in DC and VA
The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

U.S. Food and Drug Administration (FDA)
FDA Center for Food Safety and Applied Nutrition
200 Charles Street, SW
Washington, DC 20402
The FDA offers information on packaging and labeling requirements for food and food-related products.

Associations/Organizations

Child Care Action Campaign
99 Hudson Street, Suite 1233
New York, NY 10013
Phone: 212-334-9595

Child Welfare League of America
440 First Street, NW, Suite 310
Washington, DC 20001
Phone: 202-638-2952

National Association for Family Day Care (NAFDC)
815 15th Street, NW, Suite 928
Washington, DC 20001
Phone: 202-347-3356

For More Information

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

- **Trade association information**
  Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through publications and services such as newsletters, conferences and seminars.
- **Books**
  Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check *Books In Print*, a directory of books currently available from publishers.
- **Magazine and newspaper articles**
  Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

In addition to books and magazines, many libraries offer free workshops, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.

This Publication was printed at the UNICOR Print Plant, Federal Medical Center, Fort Worth, Tx.